



# Disinflation in India

## Why in News?

The [Reserve Bank of India \(RBI\)](#) recently stated that **India's disinflation process is expected to be gradual and prolonged**, with the **4% inflation target** likely to be achieved **only over the medium term**.

## What is Disinflation?

- **About:**
  - Disinflation refers to a decrease in the rate of inflation, which means that prices are still rising but at a slower pace than before.
    - It is important to note that disinflation is **different from deflation, which refers to a sustained decrease in the overall price level.**
    - **A healthy amount of disinflation is necessary since it prevents the economy from overheating.**
- **Causes:**
  - Disinflation can be **caused by various factors**, such as:
    - A slowdown in economic growth or demand
    - A [tight monetary policy](#) or higher interest rates
    - A fiscal consolidation or lower government spending
    - A stronger exchange rate.

## What is Inflation and Deflation?

- **About:**
  - **Inflation refers to the rise in the prices of most goods and services of daily or common use**, such as food, clothing, housing, recreation, transport, consumer staples, etc.
    - Inflation measures the **average price change in a basket of commodities and services over time.**
    - The **opposite and rare fall in the price index of this basket of items is called 'deflation'.**
  - Inflation is **indicative of the decrease in the purchasing power of a unit of a country's currency.** This is measured in percentage.
- **Evaluation:**
  - In India, inflation is primarily measured by [WPI \(Wholesale Price Index\)](#) and [CPI \(Consumer Price Index\)](#), which measure wholesale and retail-level price changes, respectively.
  - The **Monetary Policy Committee (MPC) uses CPI data to control inflation.**
    - MPC, led by the RBI governor, is responsible for reducing inflation to 4% over the medium term, while maintaining it between 2% and 6% in the long run.

## What Recent Updates has the RBI Provided Regarding Inflation?

- **Current Inflation Landscape:**
  - As of May, **2023 India's annual retail inflation stood at 4.25%, down from 4.7% in April, 2023.** However, **analysts forecast that inflation will remain persistent in the coming months,** posing challenges to achieving the 4% target.
- **Inflation Projection for 2023-24:**
  - RBI stated that the **inflation projection for FY 23-24 is estimated at 5.1%,** which is lower than previous figures but still above the target. This indicates the **need for continued vigilance and policy measures to curb inflationary pressures** and ensure macroeconomic stability.

## **UPSC Civil Services Examination, Previous Year Question (PYQ)**

### **Prelims**

**Q.1 With reference to Indian economy, demand-pull inflation can be caused/increased by which of the following?**

1. Expansionary policies
2. Fiscal stimulus
3. Inflation-indexing of wages
4. Higher purchasing power
5. Rising interest rates

**Select the correct answer using the code given below:**

- (a)** 1, 2 and 4 only
- (b)** 3, 4 and 5 only
- (c)** 1, 2, 3 and 5 only
- (d)** 1, 2, 3, 4 and 5

**Ans: (a)**

**Q.2 Consider the following statements: (2020)**

1. The weightage of food in Consumer Price Index (CPI) is higher than that in Wholesale Price Index (WPI).
2. The WPI does not capture changes in the prices of services, which CPI does.
3. Reserve Bank of India has now adopted WPI as its key measure of inflation and to decide on changing the key policy rates.

**Which of the statements given above is/are correct?**

- (a)** 1 and 2 only
- (b)** 2 only
- (c)** 3 only
- (d)** 1, 2 and 3

**Ans: (a)**

**[Source: TH](#)**

